(Annexure I)

1-(1) Dividend Distribution Tax (DDT)

Suggestion:

Dividend tax should be imposed on the dividend recipients, not the dividend payers.

Issue:

The same income is taxed twice under the current system: first as DDT in India; and second as foreign-sourced dividend in the country of residence of the foreign shareholder.

However, the global-standard effective in most countries, require the recipients --- not the payers --- to be taxed.

Merit/Impact:

DDT constitutes one of the major constraints for investments in India. Removal of DDT would remove a considerable impediment to greater FDI in India.

Table for the rate of withholding tax as per dividends

	Withholding Tax				DDT
	Tax Rate		Condition of Parent and subsidiary		Tax Rate
Country name	General	Between Parent and Subsidiary	Holding Ratio	Holding period	General
United State of America to Japan	10%	**5%**	10% or more		No DDT
		Nil	More than 50%	12 month	
United Kingdam to Japan	10%	**5%**	10% or more		No DDT
		NIl	More than 50%	6 month	
India to Japan	10%	**10%**	No Condition		16.22250%

*1 This table shows the rate of withholding tax to be deducted as per dividends paid in DTAA where the source of income is generated. It is asumed a company in each country pays dividend to Shareholders in Japan (a company of Japanese residence).

*2 No Dividend Distribution Tax or similar kind of taxes are applicable. Hence these withholding tax does not become costs for shareholders.

*3 Dividend Distrbution Tax rate is including the surcharge and cess.

Simulation

The amount of dividend	US$¥100,000.00

1. Share holding 25% -50%

			USA to Japan	U.K. to Japan	India to Japan
Payer	Dividend	a)	US$¥100,000.00	US$¥100,000.00	US$¥100,000.00
	withholding tax	b)	5000.00	5000.00	
	DDT	c)	Nil	Nil	16222.5
	Cash Out		**100,000.00**	**100,000.00**	**116,222.50**
Recipient	dividend received	d)	95,000.00	95,000.00	100,000.00
	5% of dividend received	e)=a)x5%	5000.000	5000.000	5000.000
	normal effective statutory tax rate (40%)	f)=e)x40%	2000.000	2000.000	2000.000
	cash in	g)=d)-f)	**93,000.00**	**93,000.00**	**98,000.00**
	COST	b)+c)+f)	7,000.00	7,000.00	18,222.50

2. Share holding 50%-100%

			USA to Japan	U.K. to Japan	India to Japan
Payer	Dividend	a)	US$¥100,000.00	US$¥100,000.00	US$¥100,000.00
	withholding tax	b)	0	0	0
	DDT	c)	Nil	Nil	16222.50
	Cash Out		**100,000.00**	**100,000.00**	**116,222.50**
Recipient	dividend received	d)	100,000.00	100,000.00	100,000.00
	5% of dividend received	e)=a)x5%	5,000.00	5,000.00	5,000.00
	normal effective statutory tax rate (40%)	f)=e)x40%	2,000.00	2,000.00	2,000.00
	cash in	g)=d)-f)	**98,000.00**	**98,000.00**	**98,000.00**
	COST	b)+c)+f)	2,000.00	2,000.00	18,222.50

1-(2)-a Transfer Price (TP) Taxation

Suggestion:
Indian subsidiaries of "Sogo Shosha" should be recognized as service providers, not traders.

Issue:
We fear that such controversies would seriously undermine business confidence in the revenue system and discourage business morale.

Up to 2007 the revenue authorities had recognized the Indian subsidiaries of Japanese Sogo Shosha as service providers. Such recognition has been widely accepted by revenue authorities throughout the Asia Pacific and elsewhere.

Contrary of the Department of Revenue argument ("the claim that Indian subsidiary be recognized as service provider and not trader would depend upon facts of each case and therefore there can not be a general characterization of income as sought by the Chamber"),TP assessments by the authorities are highly discretionary and subjective. Indian TP taxation does not have a clear criteria for measurement and TP officers do not operate on transparent and clear definition.

Merit/Impact:
Current system requires foreign companies to allocate huge amount of human resources and legal fees; this will cumulatively have an adverse affect on FDI inflow.

1-(2)-b Advance Pricing Agreement (APA)

Suggestion:

The Advance Pricing Agreement (APA) should be introduced at an earliest. Detailed rules and guidelines should be announced well in advance of the introduction of New Direct Tax Code. The rules and practices of the APA should be established in equitable basis in light of those in other countries.

Issue:

APA rules should be designed to resolve actual or potential transfer pricing disputes in a principled and cooperative manner, as an alternative to the traditional process.

APA is a binding contract between the tax authorities and the taxpayer. The tax authorities will agree not to seek transfer-pricing adjustments if the taxpayer files its tax return for a covered year consistent with APA.

Merit/Impact:

Transfer price risks will be removed for future taxable years. Introduction of APA would have a benevolent affect on promoting FDI to India.

1-(3) Minimum Alternative Tax (MAT)

Suggestion:
MAT should not be applicable to Special Economic Zones (SEZ) businesses.

Issue:
100% deduction of profits on export is allowed for SEZ companies. This incentive is to enhance foreign investment, to promote employment and to obtain foreign currency of the country. The SEZ companies can improve their cash flow with this incentive.

On the other hand, the concept of MAT is to impose the tax on the companies which enjoying zero tax by taking the deference between book profit calculated by the Companies Act and taxable income.

Considering with the concepts of both systems, SEZ companies should enjoy their tax incentive, thus, they should enjoy their tax incentive to perform their function as SEZ companies.

Merit/Impact:
Introduction of MAT could offset the various incentives provided by the SEZ and will defeat the purpose of creating SEZs.

1-(4) GST (Goods & Services Tax)

Suggestion:

GST should be introduced at the earliest. Detailed rules and guidelines should be announced 5 to 6 month prior to the commencement date of GST.

Issues:

Goods and Services Tax (GST) is a part of the proposed tax reforms for an efficient and harmonized consumption tax system in India, which has been discussed over years since the 2007 Union Budget.

GST is proposed to be a comprehensive indirect tax levy on manufacture, sale and consumption of goods as well as services at a national level. Integration of goods and services taxation would give India a world class tax system and improve tax collections.

With the introduction of the Goods & Services Tax (GST), the Surcharge, Education Cess (3%) and Central Sales Tax (CST) should be abolished completely. Further the Work Contract Tax (WCT) and Services Tax must be integrated into the GST. Other different tax systems of each state, such as Octroi, should be unified into the GST.

Merit/Impact:

Various and complicated taxation is one of the major constraints for investments in India. Early Introduction of GST would remove a considerable impediment to greater FDI in India.

(Annexure II)

2. Social Security scheme

Suggestion:
Provident Fund (PF) of international workers (IWs) should be refunded when IWs return to home country immediately as same treatment as Japan.

Issues:
IWs can withdraw the PF accumulations on retirement from service in establishment only after the attainment of 58 years of age This condition is completely unwarranted and against the basic objective of social security and has put the Japanese workers working in India at a great undue hardship. This condition will indirectly compel the young Japanese businessmen who are coming for a very short period say 3-5 years, to forget about their hard earned money contributed towards PF accumulation in India.

As per present social security norms applicable to Indian workers working in Japan, an Indian worker is entitle to refund his PF proceeds at the time of his permanent leaving Japan. Thus, Govt. of India should follow the **"Rule of Reciprocity"** and exempt countries like Japan from such stringent provisions relating to PF of IWs.

We understand that execution of Social Security Agreement (SSA) is a policy measure effecting interest of number of Indian and Japanese workers working in Japan and India respectively, a number of rounds for negotiations will further take place between Indian and Japanese counterparts (governments) on this subject and it is expected that finalization and enforcement of SSA between India & Japan may take more time.
Furthermore, SSA may not be applicable to IWs who are stationed in India exceeding 5 years.

Thus, the withdrawal of PF proceeds should be treated as a separate and independent issue from the execution of SSA which is requested early implementation.

(Annexure III)

3-(1) Residential Permit

Suggestion:

Issuance of Residential Permit by FRRO / FRO should be with the same period of the validity of Employee Visa (E-Visa).

Issue:

FRRO / FRO requires that Residential Permit shall be renewed every year in longest case, besides the validity of E-Visa is three years.

Japanese employee who holds the E-Visa whose validity is for three years shall basically work for the same company in India for the same period as visa validity. The renewal of Residential Permit is the time-consuming work and sometimes occupies their important time which they work for the development for India economy.

We are aware that some notes/memos have been exchanged between Japan-India governments, but we would like to keep requesting you.

Merit/Impact:

- Japanese employee can concentrate their original assignment to heighten their productivity.

3-(2) E-Visa and Residential Permit renewal process

Suggestion:

- The procedure for renewal of E-Visa/Residential Permit in each state should be the same conditions in Delhi.
- The right of the extension of E-visa/Residential Permit should be delegated to FRO in Gurgaon/Pune by states government.

Issue :

- In Gurgaon、FRO does not permit one year extension initially. (Normally they give only 3 month validity twice, then extend 6^{th} month.)
- It takes a lot of time for verification from the local police.
- Chennai FRRO does not permit his/her supporting staff to enter into FRRO office.
- In case Pune and Gurugaon, it takes more time to complete its whole procedure than Delhi, Kolkata, Chennai.

3-(3). 60day interval between consecutive visits for Multiple Entry Tourist Visa holders

Suggestion:

The restriction of minimum 60 days interval between two consecutive visits by the passengers holding long term Multiple Entry Tourist Visa for India, and the restriction of single entry Tourist Visa On Arrival, should be removed.

Issue:

These restrictions are preventing Indian airports from becoming entry points or hub to neighboring countries. For example:

- Japanese residents in India are discouraged from inviting their relatives to visit neighboring countries for holiday;
- Majority of Japanese tourists usually do not have a fixed itinerary;
- Tourists wishing to visit the Maldives, Nepal, Bhutan, tend to include a tour of Delhi which serves as the entry/transit point to these destinations; however, in the absence of multiple-entry tourist visas, such potentials are forfeited.

Merit:

The resolution of this matter could dramatically increase the number of tourists visiting India.

3-(4) "Tourist visa on arrival" procedure

Suggestion

Tourist visa-on-arrival (VOA) procedure should be improved.

- VOA Counter should accept the payment for immigration fee in Japanese Yen and US dollars.
- Basic facility for taking photographs should be installed.

Issues:

- the visa fee of USD60 or equivalent amount in Japanese Yen can not be paid directly nor there is any exchange facility to convert foreign exchange to Indian Rupee in the vicinity of the VOA desk.
- Further, Japanese tourists seeking "visa on arrival", presently do not have the facility near the Immigration desk, to take an instant photograph required for the visa application form.

Presently, the number of passengers availing this facility have been very few, hardly one or two passengers per flight. The provisions are rather complicated and the facilities to avail this facility are still poor: No facility for photographs.

Merit/Impact:

Improvement of the procedure should considerably increase the number of foreign tourists.

(Annexure IV)

4-i) Road developments in Chennai city

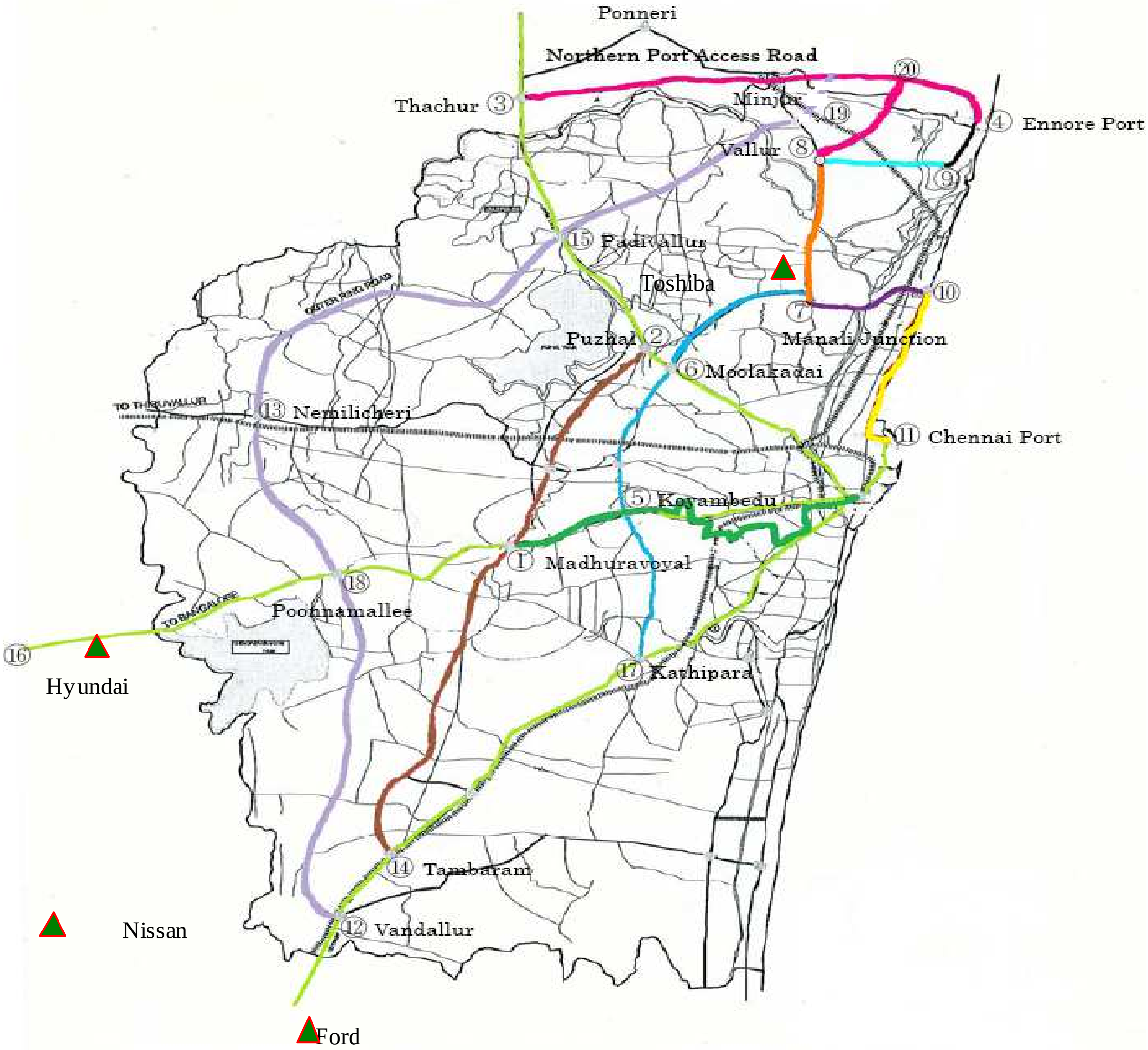
- Completion timing of EMRIP (North part of Inner Ring Road, TPP Road, Manali Oil Refinery Road, Ennore Express Way) is said to be completed by June 2013.
- Elevated Corridor Project to Chennai Port is said to be completed by December 2012.
- NCTPS Road and Ennore Port Road, Outer Ring Road Phase II, and Northern Port Access Road should be completed expeditiously. (NCTPS Road and Ennore Port Road should be completed at the same timing as EMRIP.)

And the result of progress review meeting of the authorities should be shared with JCCII.

Issue:
Insufficient infrastructure causes heavy road congestion and unsafe condition in Chennai city area. As the result the connectivity to Ennore/ Chennai ports are far beyond the international standard. Many companies are forced to spend unexpected time and cost.

Merit/Impact:
The beneficiaries of this issue are not only for Japanese companies but also Indian companies.
(See the map below)

Road Connectivity to Ennore Port



Legend

① — ⑭	Chennai Bypass Phase I
① — ②	Chennai Bypass Phase II
① — ⑪	Elevated corridor to Chennai port (under construction)
③ — ④	Northern Port Access Road
⑰ — ⑤ — ⑥ — ⑦	Inner Ring Road
⑦ — ⑧	T.P.P. Road
⑦ — ⑩	Manali Oil Refinery Road
⑧ — ⑨	Northern Chennai Thermal Power Station Road
⑩ — ⑪	Ennore Expressway
⑨ — ④	Port Access Road
⑪ — ⑫ NH 45 ⑪ — ⑬ NH 205 ⑪ — ③ NH 5 ⑪ — ⑯	NH 4
⑫ — ⑬ — ⑮ — ⑲	Outer Ring Road
— · — ·	Railway Line

Road Condition

1) Repeated Road Damage after Rain Season

TPP Road (North Area) in 9th Nov. 2011

2) Road Congestion

TPP Road (North Area) in 9th Nov. 2011

3) Unsafe Condition

Shetrunjay Bridge, Gujarat in 8TH August, 2009

4-ii) Road Developments in Bangalore

For the Japanese companies operating in Bangalore, the improvement of the road infrastructure is very crucial. While the connectivity between Bangalore and Chennai will improve, we also need to improve the connectivity in and around Bangalore as under;

- Widening of NH-207 & its linkage to Chennai-Bangalore Expressway.
- Expedite the implementation of Peripheral Ring Road phase -1
- Completion of NICE Ring Road (The issue of Bannerghatta Fly over).

The quality check and maintenance of the roads also should be reinforced by the government authorities concerned to ensure the smooth transportation of the products.

Issue:

The traffic congestion in the city has become chronic. The jam at the crank crossing near Yeshwantpur Railway Station, and the area of Metro Rail construction sites like Mysore Road are the few examples.

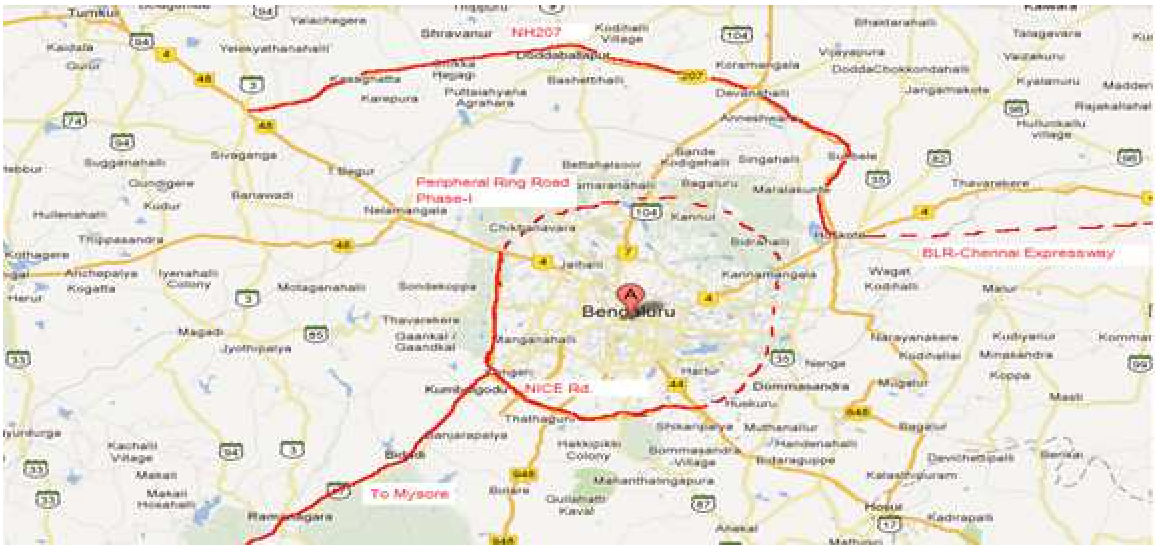
Merit/Impact:

Reducing the traffic congestion will improve the efficiency of the business activities, and cost competitiveness. Good quality of road will contribute to industries to save cost of extra damage proof packaging.

(See the map below)

Expectation from States.......

Need to improve Road Connectivity



A4-6

4-iii-a Road Developments in Kolkata (NH41)

National Highway Authority of India should be requested to give top priority to the project of four lane of NH41.

Issue:

The progress of four lane of NH41 from Kolaghat to Haldia (around 60 km) has been rather slow. This National Highway caters to many industries and users of the Port (around 40 Mn. Ton of cargo is handled per year).

Merit / Impact:

Four Laning of NH 41 will facilitate smooth and fast movement of vehicles (cargo & passengers) between Haldia and rest of the country, especially Kolkata. It will support to develop Haldia industry area.

Map of NH -41

Present Position

4-iii-b Road Developments in Kolkata (NH 6)

The construction of 2nd bridge over River Roopnarayan near Kolaghat should be completed immediately.

Issue :

The bridge on NH6 over River Roopnarayan near Kolaghat, connects NH6 and NH 41, thereby connecting Haldia to Kolkata. This bridge is a bottleneck for the heavy traffic moving through NH 6. Movement of traffic over the existing bridge is very slow. Construction of the 2nd bridge has been stagnant for long.

Merit / Impact:

Construction of 2nd bridge over river Roopnarayan will ensure smooth and fast movement of vehicles (cargo & passengers) between Haldia and Kolkata and it will support to develop Haldia industry area.

Map of bridge on NH -6

Present Position

4-iv) NHAI Bangalore-Chennai Expressway

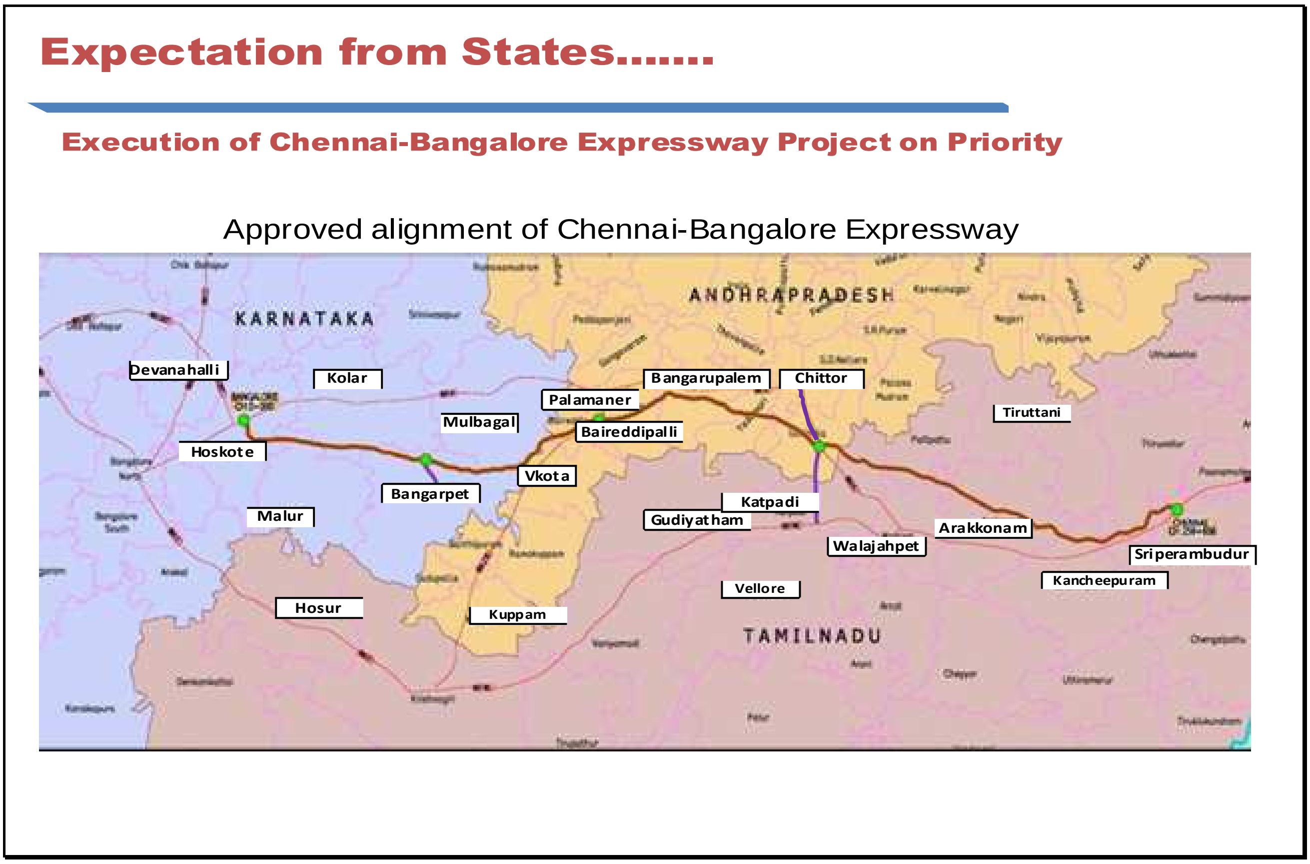
Background:

In the joint statement of Japan and India when the Japanese Prime Minister visited India on 27 and 28 December 2011, both the prime ministers stressed the importance of infrastructure development in the area between Chennai and Bangalore, where an increasing number of Japanese companies have made direct investments. Both the governments decided to strengthen efforts to improve the infrastructure, and to have India's Comprehensive Integrated Master Plan in this region.

One of the most important projects in this sector would be Chennai –Bangalore Expressway. We understand that the work on Feasibility Study and DPR (Detailed Project Report) will be completed within this fiscal year. We hope the project will be implemented as per the schedule to be proposed.

Merit/Impact:

We expect that once this access limited expressway has been completed, the transportation time will be further reduced.



4-v) –a Dredging at Haldia River to maintain minimum draft

The Kolkata Port Trust needs to immediately take up capital dredging operations in Hooghly River to ensure minimum draft availability in the channel approaching Haldia Dock Complex (HDC).

Issue:

Vessels calls to and out of Haldia port cannot take load up to their full capacity. This results to the payment of:

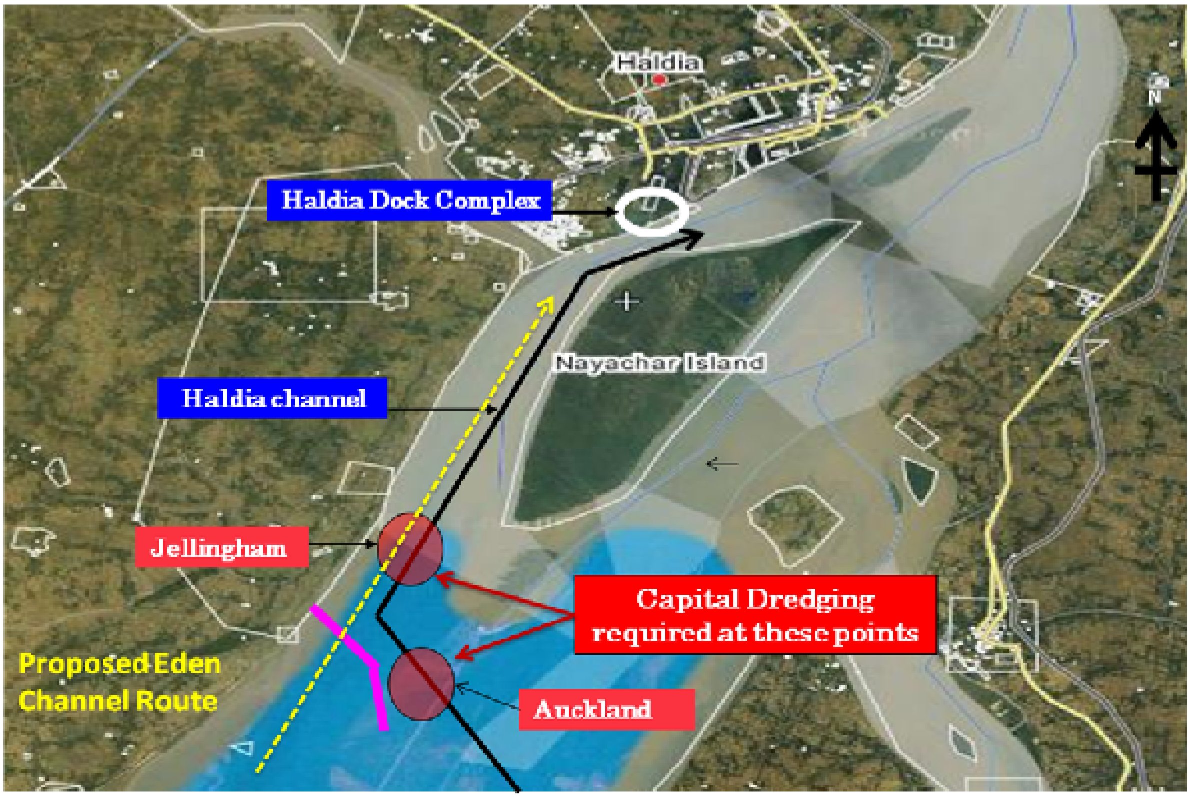
- Dead freight to the vessels resulting to increase in cost.
- Demurrage of vessels due to insufficient draft.

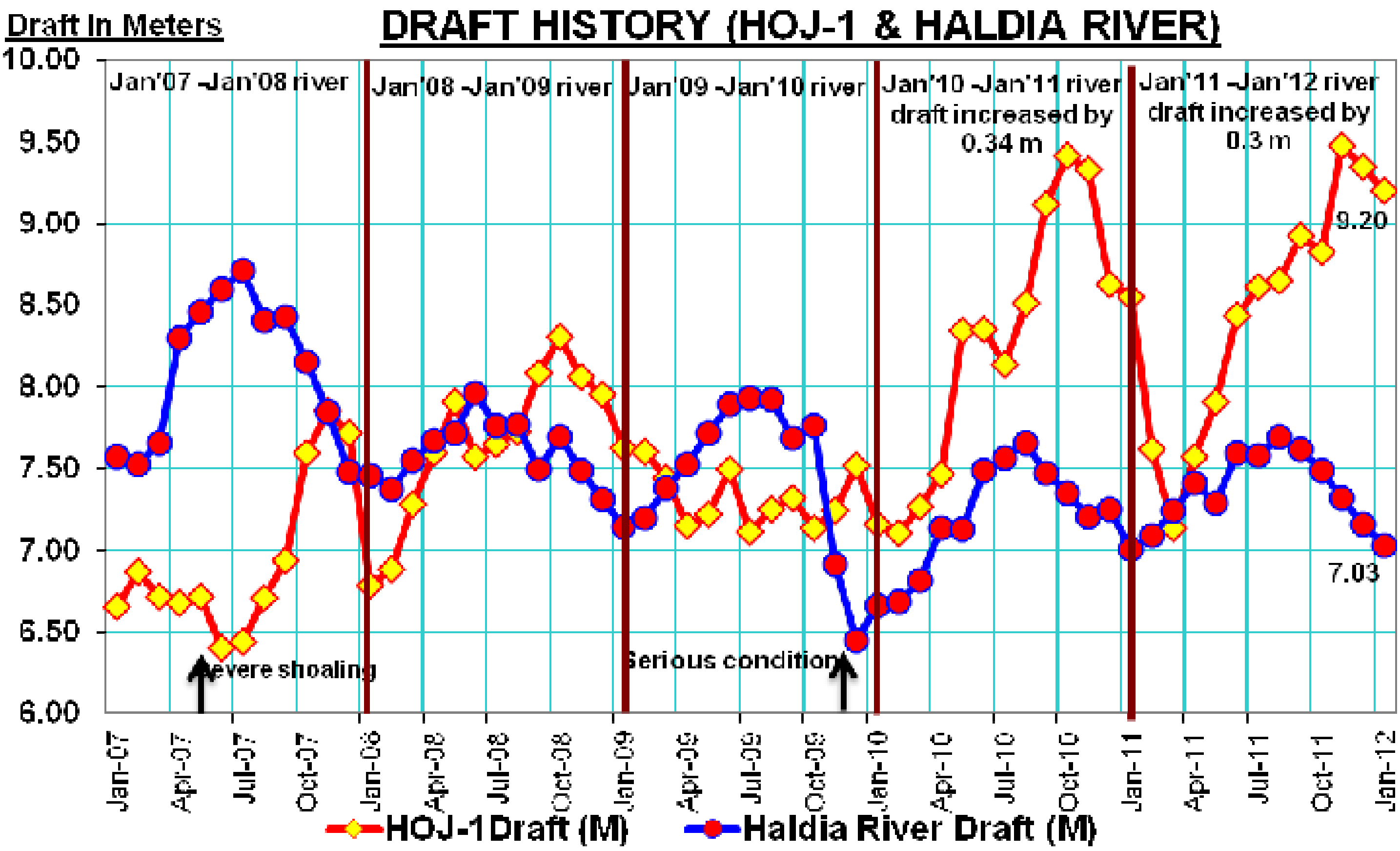
Due to this Haldia Industries incur very high cost for logistics.

Merit / Impact:

By increase in the draft vessels coming and moving out of Haldia port can reduce their dead freight. Industries dependent on the port can become competitive and it will support to develop Haldia industry area.

Dredging in Hooghly River





Draft In Meters
DRAFT HISTORY (HOJ-1 & HALDIA RIVER)
10.00
9.50
9.00
8.50
8.00
7.50
7.00
6.50
6.00
Jan'07 -Jan'08 river
Jan'08 -Jan'09 river
Jan'09 -Jan'10 river
Jan'10 -Jan'11 river draft increased by 0.34 m
Jan'11 -Jan'12 river draft increased by 0.3 m
9.20
7.03
Severe shoaling
Serious condition
Jan-07
Apr-07
Jul-07
Oct-07
Jan-08
Apr-08
Jul-08
Oct-08
Jan-09
Apr-09
Jul-09
Oct-09
Jan-10
Apr-10
Jul-10
Oct-10
Jan-11
Apr-11
Jul-11
Oct-11
Jan-12
HOJ-1 Draft (M)
Haldia River Draft (M)

4-v)-b Opening of the Eden Channel for Haldia Port

The Eden Channel for the inbound & out bound vessels of Haldia port should be opened by the Kolkata Port Trust immediately.

Issue:

Vessels coming to and moving out of Haldia port cannot take load up to their full capacity due to shallowing draft of the existing channel.

This results to the payment of:

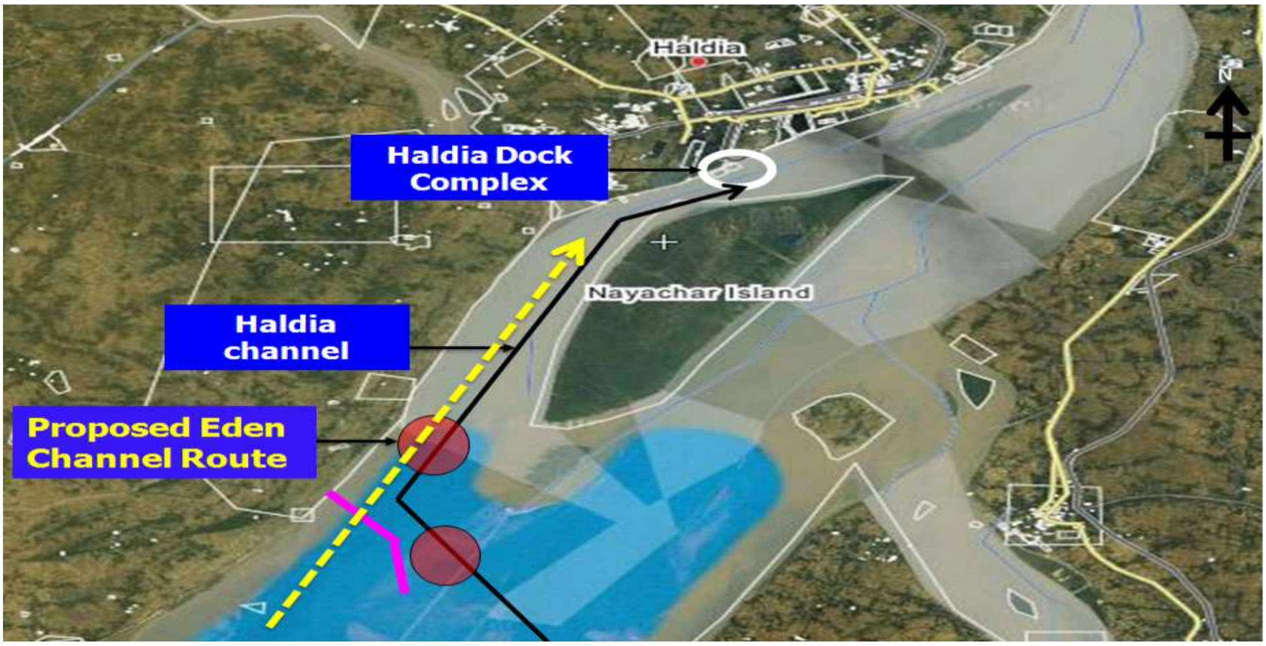
- Dead freight to the vessels resulting to increase in cost.
- Demurrage of vessels due to insufficient draft and berth congestion.

Due to this Haldia Industries incur very high cost for logistics.

Merit / Impact:

By opening the Eden Channel vessels coming and moving out of Haldia port can avail a much higher draft and thus reduce their dead freight. Industries dependent on the port can become competitive and it will support to develop Haldia industry area

Opening of the Eden Channel



4-vi) Infrastructure - Reduction of Ennore Port Charge

Suggestion:

Ennore Port charge should be same level as other ports in India. Road connectivity improvement will lead to increment of handling cargo volume, and the government assistance for port development help to reduce the port charge.

Issue:

Ennore Port charge is extremely higher than other major ports either in India or in China / ASEAN regions. This is hampering global competitiveness of the products of users.

- 5.2 times the charges at Leam Chabang Port in Thailand.
- 8.3 times the charges in Colombo
- 2.3 times the charges in Chennai / Mumbai.

Merit/Impact:

Port competitiveness improvement contributes the export business expansion for India.

- Loading Volume: 4,500units/shipment
- Loading time: 3 days(72hours)/shipment

Port Charge Comparison

1) Indian Domestic Port

	Ennore	Chennai	Mundra	Munbai
Pilotage	38,130 (US$0.82 per GRT)	23,975 (US$0.507 per GRT)	18,744 (US$0.405 per GRT)	14,929 (US$0.322 per GRT)
Port Due	27,845 (US$0.53 per GRT)	10,695 (US$0.23 per GRT)	7,209 (US$0.156 per GRT)	9,783 (US$0.2111 per GRT)
Berth Hire (72hrs)	40,176 (US$0.012 per GRT/hrs)	9,676 (US$0.00289 per GRT/hrs)	22,246 (US$0.0067 per GRT/hrs)	25,026 (US$0.0075 per GRT/hrs)
Others	16,148	9,567	5,019	5,000
Total	122,299 (Inc. Service Tax)	53,913 (Inc. Service Tax)	53,218 (Inc. Service Tax)	54,738 (Inc. Service Tax)
Variance	100.0%	44.1%	43.5%	44.8%

2) Global Port

	Ennore	Laem Chabang	Singapore	Colombo	Amsterdam	Tacoma (U.S.)
Pilotage	38,130 (US$0.82 per GRT)	3,443 (Draft 8.5m LOA617ft)	4,290 (US$262.31 per hrs)	2,825 (US$0.061 per GRT)	29,348 (Draft 8.5m US$8,300)	18,397 (US$0.082 per GRT)
Port Due	27,845 (US$0.53 per GRT)	9,257 (US$0.1935 per GRT + $259)	3,430 (US$6.98 per 100GRT)	3,736 (US$0.0795 per GRT)	8,618 (US$0.177 per GRT)	3,000 (US$0.06 per NRT)
Berth Hire (72hrs)	40,176 (US$0.012 per GRT/hrs)	8,100 (US$0.0024 per GRT/hrs)	16,404 (US$5,468 per day)	7,350 (US$0.0022 per GRT/hrs)	2,007 (US$669 per day)	13,053 (US$4,351 per day)
Others	16,148	2,700	2,200	1,632	7,085	4,620
Total	122,299 (Inc. Service Tax)	23,500	26,324	15,543	47,058	39,070
Variance	100.0%	19.2%	21.5%	12.7%	38.5%	31.9%

4-vii) Efficient Operation Controlling System for Railways

Suggestion:

- Introduction of more efficient controlling system for train operations is essential for frequent industrial usage of the railways.
- We would request Government of India to start the trial operation for the railway system between Bangalore and Chennai in which both the prime ministers stressed the importance of infrastructure development on 28 December 2011.

  Both the governments decided to strengthen efforts to improve the infrastructure, and to have India's Comprehensive Integrated Master Plan in this region.
- We would like to request to include this pilot project in the proposed Master Plan, and to seek the technical assistance in this sector.

Issues:

Indian rail transportation has issues and problems for industries to make good use of.

a. Non-reliability of on-time operation
   The trains, especially goods train, don't run on schedule.
   The industries can not make logistics plan by rail transportation.

b. The numbers of goods trains
   The numbers of goods trains available for industries are very less.
   Industries are facing difficulties to opt for the cargo transportation by rail as the physical distribution method. Because industries have stocks and stock yard for rail transportation and it is huge cost for them.

c. Cost
   Rail transportation cost is more expensive than that of truck transportation.

d. Insufficiency of facility at loading and unloading point
   Transit lead time is long.
   (For example, Waiting for train arrival 1 day, Loading & Unloading 1 day, Transit Loco change 1 day + distribution)
   From lead time point of view, only long routes can match the truck transportation, but cost is higher.

Merit

By introducing advanced train control system and improvement of cargo terminals, train transportation will become beneficial for industries. It will also contribute to efficient industrial growth and environmental protection of India.

(Annexure V)

5-(1) Opening of Branch Offices in the Metropolitan Area

Suggestion:

- Foreign banks should be allowed to open branch offices in the metropolitan areas more liberally and promptly.

Issue:

- Foreign banks are not allowed to open branch offices in the metropolitan areas unless they open branch offices in the rural areas.
- Japan's FDI into India is the efficient driver for further development of Indian economy, especially promoting its development of infrastructure. Japanese banks are essential financial infrastructure for those investments.

Merit/Impact:

- Japanese banks can contribute to the Indian economy if they are allowed more freely to finance the corporate sector. Constraining bank activities will limit corporate activities and discourage FDI.
- Greater foreign bank participation can bring healthy competition to the sector.

5-(2) Foreign exchange and capital transfer

Suggestion:

- The procedures of FIRC (Foreign Inward Remittance Certificate) should be simplified.

Issue:

- The regulations related to foreign exchange and capital transfer is now complicated and request corporate and banks too much procedures and many document materials.

Merit/Impact:

- Simple and clear procedure benefit all corporate for smooth operation.

5-(3) Number of Expatriates in Foreign Banks

Suggestion:

- The regulations which restrict the increase in the number of expatriate in foreign bank should be relaxed.
- Japanese banks need to increase the number of Japanese expatriate flexibly along with the expansion of their business.

Issue:

- Due to the restriction business cannot expand and cannot serve the customer needs.
- If corporate customers cannot be served properly, this can cast a damp on FDIs.

Merit/Impact:

- Larger number of expatriate staffs will generate more business activities and lead to hiring more Indian staffs thereby contributing to local employment.

5-(4) External Commercial Borrowing

Suggestion:

- The regulations related to ECB in order should be relaxed to enable ECB to be used for multiple purposes, including working capital.

Issues:

- The limitation in ECB usage due to current regulation reduces good chance for favorable funding occasion for corporate entities, and may cause additional cost in financial statement.

Merit/Impact:

- More flexibility to utilize ECB shall help all corporate by giving many choice for money funding and cause sound financial management.

5-(5) Priority Sector Lending

Suggestion:

- The regulations related to Priority Sector Lending (PSL), especially in Medium Small Enterprise (MSE) sector, should be relaxed. The loans to public entities which are committed to finance such sectors should be counted as PSL.

Issues:

- Due to the requirement, banks which do not have access to the MSE sector are struggling to meet the target especially after the recent revision of the regulation.
- As a result, banks need to be cautious in lending on-shore loans and it will diminish not only their intentions to expand the on-shore business but business activities of corporate which require on-shore funding.

Merit/Impact:

- Once the above suggestion is realized, banks can be more proactive in lending on-shore loans and as a result, more economic effect can be expected even in MSE sector.

5-(6) Limit on FDI in Insurance Sector:

Suggestion:

- The upper limit of foreign direct investment in insurance sector should be raised (currently 26% of the equity share) immediately.

Issue:

- Foreign insurance companies cannot take full management initiative if share is limited to 26%. This limitation restricts from the introduction of the international risk management methods such as loss control measures.

Merit / Impact:

- Loss control measures will enable Indian insurance companies to reduce insurance premium for customers.
- Greater distribution capacity will allow more Indian people secured by insurance.
- Insurance companies will be able to divert the risks to the global market, and take more options for reinsurance companies, which will bring more stability to management.

5-(7) Obligatory Commissions

Suggestions:

- All general insurance companies including Indian domestic companies have requested that the Ministry of Finance and GIC should continue to pay Obligatory Commissions.

Issue :

- The letter dated 25th October 2011 by Ministry of Finance has directed GIC to withdraw all Obligatory Commissions stating that Commissions on Obligatory Cessions is against the basis concept of the Agreement and by virtue of the nature of the agreement the cessions are bound to come with or without commission. GIC thus vide their mail dated 14th Nov'2011 has withdrawn all Obligatory Commissions for 2011-12.
- The matter was represented by GI Council vide their letter dated 23rd Nov'2011 requesting GIC to reinstate the Obligatory commissions stating that withdrawal of the same would be breach of the provisions of the agreement between GIC Re and GI Council members.
- The definition of commission being a deduction made by ceding company towards acquisition and administrative expenses has already been accepted by Ministry of Finance while discussing service tax on Reinsurance Commissions.
- The Obligatory Commissions for 2012-13 onwards should thus follow on the same lines.

Merit/Impact:

- If GIC maintains current reinsurance scheme by paying proper commission to ceding company, all general insurance companies operating in India (including domestic insurance companies) could maintain their healthy business operation in India without any effect to their financial result.
- Paying proper reinsurance commission to ceding company is an international practice.
- If GIC stop paying reinsurance commission, most of general insurance companies will fall into the red.

5-(8) Equity investment by QFI

Suggestion:

- Qualified Foreign Investors (QFIs), especially those are regulated by Financial Services Agency (FSA) of International Organization of Securities Commissions (IOSCO) member countries, should be allowed to manage open-end omnibus account where such QFIs can act as a responsible party for all underlying investors' Know Your Customer (KYC) check and tax liability under the regulation of India.

Issue:

- As per Securities and Exchange Board in India (SEBI) circular issued on 13 Jan 2012, Investment Scheme by QFIs in equity only allows those who have obtained PAN and cleared India KYC criteria. However, there still remains a hurdle for majority of Japanese retail investors to follow such application procedures simply due to language, unfamiliarity with foreign paperwork and the related cost (eg. Attestation fee for PAN registration could cost approx INR 20,000 or more). Language would be still an obstacle for non-English speakers investing through QFI route as and when received direct request from Government of India (GOI). Thus, the investment platform which offers an investment opportunity in Indian equity market without language barrier is required.
- In the absence of open-end omnibus account that can be managed flexibly, the QFI route will not be an effective investment option for Japanese retail investors to actively invest in Indian equity market.
- Thus, the current QFI route may not result in major investment inflows from Japanese retail investors.

Merit/Impact:

- If open-end omnibus account management is allowed to QFIs, the investment process for Japanese retail investors would be dramatically simplified. The fund inflow from Japan shall be accelerated.
- If Japan's FSA-controlled QFIs can manage open-end omnibus account, such QFIs can act responsible for KYC control for all the underlying

investors and undertake tax liability en bloc as QFI; therefore GOI can control QFI investment as a whole through FSA-certified professional system.

- Following table shows Japanese retail investors' investment trend into foreign equity market. Such investment is expected to come to India's market if there is more open access to the market; and better market liquidity can be expected therein.

【Japanese retail investors' investment trend into foreign equity market】

(Unit: 1 bil JPY)

Period	Total investment			via Financial			via Investment Trust		
	Sales	Purchases	Net	Sales	Purchases	Net	Sales	Purchases	Net
2005FY	2,620	4,116	-1,496	743	981	-239	1,878	3,135	-1,257
2006FY	4,088	7,195	-3,107	553	624	-71	3,535	6,571	-3,036
2007FY	9,011	10,882	-1,871	743	748	-5	8,268	10,135	-1,867
2008FY	7,956	8,622	-665	391	450	-60	7,566	8,172	-606
2009FY	9,242	10,152	-910	842	984	-142	8,400	9,168	-768
2010FY	9,567	8,962	606	913	958	-45	8,654	8,004	651

(Note) Negative figures (-) of "Net" show capital outflow from Japan.
Totals may not add due to rounding.
Source: Ministry of Finance, Government of Japan

5-(9) Foreign investment restrictions in Indian debt market

Suggestion:

- QFIs should be allowed to invest into the India debt market.
- The limitation in amount of debt investment for Foreign Institutional Investors (FIIs) should be removed.
- Prior bidding procedure for FIIs to make the debt investment should be abolished.

Issue:

- Since QFIs are still not allowed to access to India's debt market, Japanese retail investors with investment appetite and sufficient funds cannot invest in India's debt market directly.
- The amount limits and the restrictions of FIIs' debt investment, such as FII bidding process and hold to maturity rule, etc, still hinder the expeditious debt transactions. Thus, debt fund products through FII route also cannot be effectively provided to Japanese investors.

Merit/Impact:

- To abolish or relax foreign investors' restriction on the investment in India's debt market shall help India diversify the methods of foreign fund inflow. If these investment limits and restrictions are eliminated, FIIs in Japan as well as across the globe can elaborate more attractive India bond funds much easily.
- Such relaxation of the regulation on foreign debt investment will accelerate foreign inflow that contributes India's evolving macroeconomic development, especially for glowing financial need in the infrastructure sector. It shall also contribute to ease upward pressure of interest rate in India.
- Following table shows Japanese retail investors' investment trend into foreign debt market. Such investment is expected to come to India's market if there is more open access to the market.

【Japanese retail investors' investment trend into foreign debt market】

(Unit: 1 bil JPY)

Period	Total Investment			via Financial Instruments Firms			via Investment Trust		
	Sales	Purchases	Net	Sales	Purchases	Net	Sales	Purchases	Net
2005FY	23,419	33,353	-9,933	14,260	19,943	-5,682	9,159	13,410	-4,251
2006FY	23,832	31,683	-7,852	12,660	17,468	-4,808	11,172	14,215	-3,043
2007FY	34,049	40,094	-6,045	15,576	19,322	-3,746	18,473	20,772	-2,299
2008FY	27,721	31,270	-3,549	8,221	11,783	-3,562	19,500	19,487	13
2009FY	29,518	35,213	-5,696	9,932	12,381	-2,449	19,585	22,832	-3,247
2010FY	27,819	36,970	-9,150	8,885	13,732	-4,847	18,934	23,238	-4,303

(Note) Negative figures (-) of "Net" show capital outflow from Japan.
Totals may not add due to rounding.
Source: Ministry of Finance, Government of Japan

(Annexure VI)

6. Logistics Distribution

- For air cargo, cargo handling and customs clearance procedure should be improved.

Suggestion

i) Customs formality

a) - The customs EDI (Electronic Data Interface) systems should be improved for quick customs procedure and integrated with other related systems to establish the upgraded Single Window.

b) Customs office should be opened for 24 hours x7 days at major airports.

The scope of emergency cargo facilities should be extended to commercial cargos; Rules for overtime of customs should be introduced for emergency cargo facilities

ii) Cargo Handling at airport complex

The cargo handling in major airport must be improved with materials handling equipment like forklift, crane and dock leveler and so on.

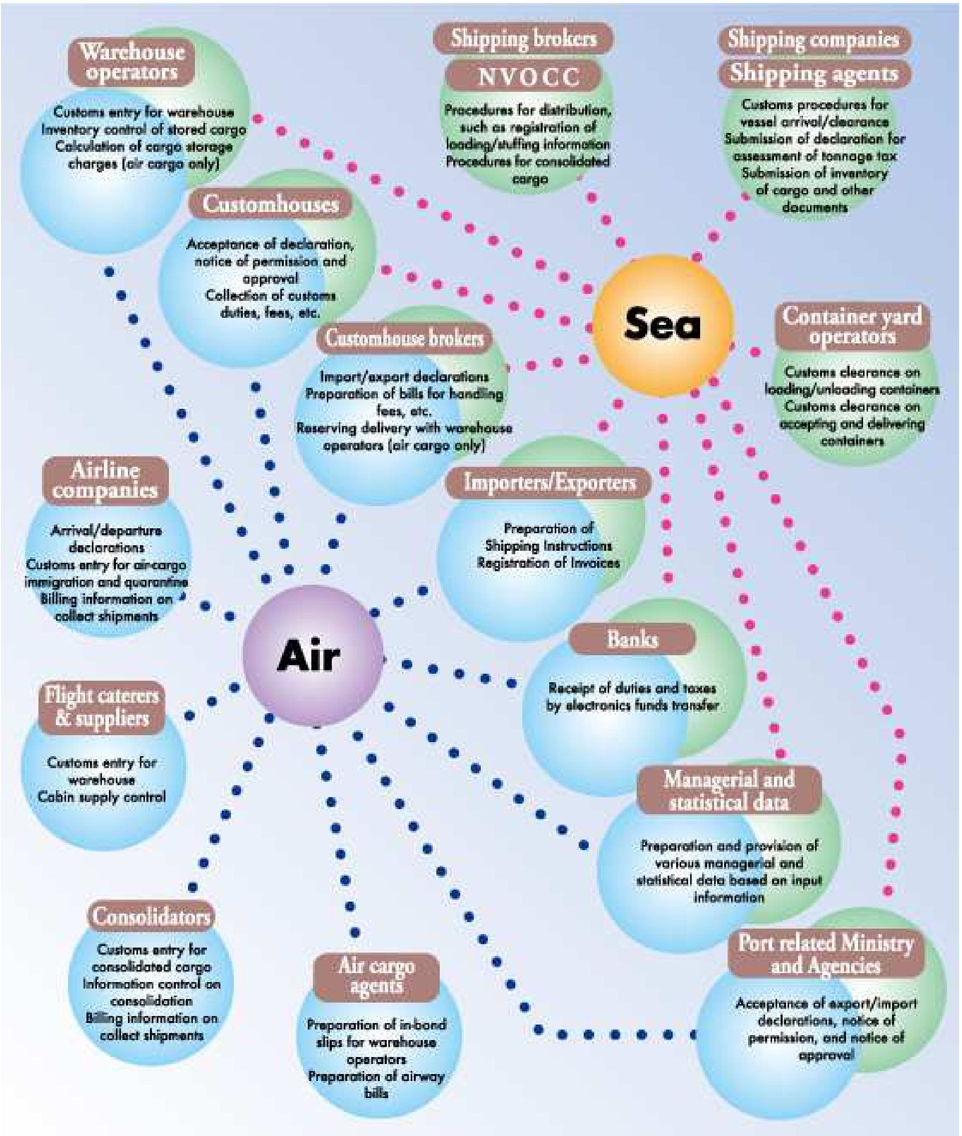
Issues：

i) Custom's formality

a) -The custom EDI (Electronic Data Interface) systems named Ice-gate works slow or entirely stopped at the peak time.

- Ice-gate is only opened to Customs House Agent and shipping companies, not to links to any other related like port system. In addition, original signature by customs appraiser is required to proceed from document assessment to physical examination. To raise its productivity, we suggest that Ice gate should be developed to be comprehensive single window through the linkage with more related parties and take electronic authentication system to realize the world class EDI system with; response time period of less than a few second, an operating ratio of more than 99.00%, complete cargo tracking function, immediate release upon arrival (: in case of pre-arrival lodgment, automatically release cargoes upon the arrival or the submission of manifest), immediate release upon carry-in (: in case of pre-arrival lodgment, automatically release cargoes upon the carry-in to a airport warehouse) etc.

Following diagram is showing the work scope of Japanese customs clearance system. In Japan, the average time of import customs clearance from start declaration till permission is only 3.1 hours. In case the importer is filed to ACP, it takes 4 minutes with their customs clearance system, and response time is 1-3 seconds.



(Resource : URL of NACCS)

b) The reply of June 3rd, 2011 states that although there are no proposals for 24 x 7 operation at major air-cargo complexes, airports can open even at nights in case of emergency cargos. However, in practice this opening is only available for public or government usage and not available for commercial cargo.

ii) Cargo Handling at airport complex

One logistics company faced two problems at Delhi Airport on 13th and 14th January 2012 only, one was missing the cargo, the other one is damaged, because of unsophisticated cargo handling systems and rushing the cargo at the airport.

These problems are just only the tip of the iceberg.

(Annexure VII)

7. Enhancement of Land Cost at Phase I of HSIIDC Growth Centre in Bawal

Suggestion:

- The calculation method of the enhanced compensation for raising land price amount should be rational and reasonable.

Issue:

- HSIIDC issued Demand Notices to the companies/ allotters in Phase-1 HSIIDC Growth Centre Bawal. The huge arbitrary amount as the enhanced compensation amount is unreasonable, especially following points,

- Amount was with alleged interest which was not controlled by companies such as the delay and negligence of HSIIDC
- The enhanced amount also included that "unsalable area, Common area" and land reserved as "Commercial" which is sold or to be sold for commercial purposes.
- HSIIDC should not impose penalty upon the industry @ 14% p.a. on account of non payment of the alleged dues.

Merit and Impact:

- Such acts on the part HSIIDC shall discourage the FDI (Foreign Direct Investment) in the state of Haryana especially Japanese Companies.

(Annexure VIII)

8. Import of Final Products

8- i) Maximum Retail Price (MRP)

Suggestion:

a) The Countervailing Duty (CVD) assessment of IT/Electronic goods should not be based on MRP but on the cost incurred by the importers.

b) MRP stickers should be affixed at DTA warehouses after completion of import customs procedure.

Issue:

The Standards of Weights and Measures (SWM) Act require MRP stickers to be affixed on goods before landing at the custom ports; this requires importers to decide on the MRP several months before the actual sales.

(Data Preparation: 1month) + (Production: 1month) + (Shipment: 1month) + (Stock:1month) = 4months

The alternative of using bonded warehouses to affix MRP stickers creates problems of capacity, cost and inconvenience.
The current system does not allow for flexibility in determining the price by importers; it also demands high-cost operation on the importers.

Merit/Impact:

This will allow for more flexibility of pricing decisions to ensure stable income for importers.
This will ensure more stable tax revenue for the government.

8- ii) Central Purchase

Suggestion:

a) Bill of Entry should not be submitted to DGS&D (Directorate General of Supply & Disposal) at tender.

b) In case contracted model is changed its model, new model should be also accepted by DGS&D.

Issue:

a) For Tender Enquiry No. WFPLOTSCAN/IT-1/RC-D10N0000/1110/81, DGS&D has been demanding the submission of Bill of Entry from any vendor who wants to be awarded Wide Format (Plotters and Scanners) rate contract with Government of India.

However, this demand may lead to disclosure of trade secret of vendors. It is not fair and open tender to a bidder.

b) After contract with DGS&D, some products are model changed because their model change cycle is every three months. But DGS&D dose not receive the new model because model number is not same as contract.

Merits :

- Government of India shall receive the latest model which is upgraded their functions.